



**Office of Health Policy and Program Support**  
P.O. Box 720724  
Sacramento, CA 94229-0724  
Telecommunications Device for the Deaf - (916) 795-3240  
Toll Free: (888) CalPERS (225-7377)  
FAX 916) 795-4105

April 18, 2006

## **AGENDA ITEM 9**

### **TO: MEMBERS OF THE HEALTH BENEFITS COMMITTEE**

- I. SUBJECT:** Second Reading - Medicare Part D Options for 2007
- II. PROGRAM:** Health Benefits
- III. RECOMMENDATION:** Information Only

### **IV. BACKGROUND:**

The Medicare Prescription Drug, Improvement, and Modernization Act established a voluntary prescription drug benefit program (Part D) effective January 1, 2006.

Enrollment data as of March 1, 2006, indicates this program impacts 149,351 Medicare members enrolled in CalPERS health plans. State Medicare enrollees total 105,883 while 43,468 are contracting agency Medicare enrollees. There are 56,626 Kaiser Senior Advantage enrollees.

In April 2005, the Board directed staff to implement Part D in 2006 by:

- Applying for the Retiree Drug Subsidy (RDS) for Medicare-eligible members not enrolled in the Kaiser Senior Advantage plan offered by CalPERS; and
- Enrolling all CalPERS Kaiser Senior Advantage members in the Kaiser Medicare Advantage Prescription Drug (MA-PD) plan.

In November 2005, the Board directed the CalPERS Office of Legal Affairs to request an opinion from the Attorney General regarding various Part D issues. The Board deferred its decision on the distribution of the RDS for 2006, pending the Attorney General's response.

This agenda item provides further analysis of two CalPERS Part D options:

- 1) Apply for the RDS for members not enrolled in Kaiser Senior Advantage and continue to provide the Kaiser MA-PD plan for Kaiser Senior Advantage members. (The same option selected in 2006).
- 2) Provide a health plan based Prescription Drug Plan (PDP) for members not enrolled in Kaiser Senior Advantage and continue to provide the Kaiser MA-PD plan for Kaiser Senior Advantage members.

We now have experience with the RDS option as well as more detail on the health plan based PDP option, allowing staff to provide further comparison.

## **V. ANALYSIS:**

To examine CalPERS 2007 Medicare Part D implementation options, staff will use four goals to guide our analysis and to act as criteria for assessing each implementation option:

- 1) Disbursement flexibility
- 2) Ease of administration
- 3) Member Impact
- 4) Maximum federal financial participation

The attachment to this agenda item provides a detailed discussion of each criterion applied to both the RDS and health plan based PDP. Based on our analysis thus far, staff has the following summary observations for the two options:

*RDS Option:* Continuing with the RDS option appears to provide the same aggregate reimbursement amount as the health plan based PDP option, using our 2006 estimate. The PDP option for our self-funded plans, however, may require additional costs due to CMS requirements. Members would continue to receive their prescription drugs without disruption. If the Board chooses to continue the subsidy for 2007, CalPERS will continue to deposit RDS payments in an escrow-type account, pending the Attorney General's opinion, and Board action based on that decision.

*Health Plan Based PDP Option:* Choosing the health plan based PDP option allows the Board to reduce premiums or buy-down pharmacy co-payments. Although the aggregate reimbursement under the PDP option appears to be the same as the RDS option based on our 2006 estimate, we continue to refine our calculations. The PDP option for our self-funded plans may require additional costs due to CMS requirements. We are

working with Medco to quantify those costs. According to Medco, there may also be some formulary disruption for our self-funded plans. We are working with Medco to quantify the impact.

The financial information provided for the RDS comes from the analyses generated for Health Benefits Committee discussions last year. The PDP analysis applies the same plan enrollment assumptions used in the RDS analysis to maintain comparability.

Working with our health plans and Medco, staff will continue our analysis of the two implementation options, and further refine our financial impact estimates as we gain more information. At the May Health Benefits Committee meeting, staff will present an analysis of distribution options available under the health plan based PDPs. Our analysis will include the impact of the plan based PDP option on Medicare rates and enrollees. Upon receipt of the Attorney General's opinion, staff will present the distribution options for the RDS.

**VI. STAFF RECOMMENDATION**

This is an information item.

**VII. STRATEGIC PLAN:**

This item supports the CalPERS Strategic Plan, Goal X: Develop and administer quality, sustainable health benefit programs that are responsive to and valued by enrollees and employers.

**VIII. RESULTS/COSTS:**

This is an information item.

---

Sandra Felderstein, Chief  
Office of Health Policy and Program Support

---

Terri Westbrook  
Assistant Executive Officer  
Health Benefits Branch

Attachment